

**REPORT OF THE AUDIT OF THE
MCCREARY COUNTY
SHERIFF**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MCCREARY COUNTY SHERIFF

**For The Year Ended
December 31, 2004**

The Auditor of Public Accounts has completed the McCreary County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$3,577 from the prior year, resulting in excess fees of \$0 as of December 31, 2004. Revenues decreased by \$85,346 from the prior year and expenditures decreased by \$81,769.

Report Comments:

- Auto Inspections Were Not Properly Accounted For
- The Sheriff Had A Deficit Of \$1,240 In His Official Account
- 2004 Payroll Liabilities Should Not Have Been Paid Out Of 2005 Receipts
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Blaine Phillips, McCreary County Judge/Executive
Honorable Clarence Perry, McCreary County Sheriff
Members of the McCreary County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of McCreary County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 18, 2006, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Blaine Phillips, McCreary County Judge/Executive
Honorable Clarence Perry, McCreary County Sheriff
Members of the McCreary County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- Auto Inspections Were Not Properly Accounted For
- The Sheriff Had A Deficit Of \$1,240 In His Official Account
- 2004 Payroll Liabilities Should Not Have Been Paid Out Of 2005 Receipts
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of McCreary County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, cursive script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 18, 2006

MCCREARY COUNTY
CLARENCE PERRY, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Federal Payments - Forest Patrol	\$	11,500	
State Grants			4,268
State - Kentucky Law Enforcement Foundation Program Fund			13,018
State Fees For Services:			
Finance and Administration Cabinet			84,276
Circuit Court Clerk:			
Fines and Fees Collected			2,187
Fiscal Court			10,587
County Clerk - Delinquent Taxes			3,657
Commission On Taxes Collected			88,099
Fees Collected For Services:			
Auto Inspections	\$	11,645	
Accident and Police Reports		609	
Serving Papers		10,026	
Carrying Concealed Deadly Weapon Permits		2,475	
Transporting Prisoners		4,132	
Advertising Costs		2,034	
Add-On Fees		22,396	
Reimbursements		6,512	
Miscellaneous		7,227	
			67,056
Interest Earned			479
Borrowed Money:			
State Advancement		30,497	
Personal Note		10,000	
			40,497
Total Revenues			325,624

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
 CLARENCE PERRY, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 96,058

Other Salaries 29,534

Employee Benefits-

Employer's Share Social Security 13,801

Employer's Share Retirement 8,581

Employer Paid Health Insurance 14,741

Unemployment & Workers Compensation Insurance 8,268

Contracted Services-

Advertising 285

Materials and Supplies-

Office Materials and Supplies 1,463

Uniforms 6,615

Auto Expense-

Gasoline 25,681

Maintenance and Repairs 17,175

Other Charges-

Conventions and Travel 877

Postage 3,541

Bond 122

Carrying Concealed Deadly Weapon Permits 1,215

Miscellaneous 111

Debt Service:

State Advancement \$ 30,497

Personal Note 10,000 40,497

Total Expenditures \$ 268,565

Net Revenues 57,059

Less: Statutory Maximum 61,860

Balance Due From Fiscal Court at Completion of Audit \$ (4,801)

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of December 31, 2004, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Drug Control Account

A drug control account was opened on April 29, 1994 with forfeited drug money. This money is restricted and may only be used for drug control. The balance as of January 1, 2004 was \$1,946. During the period, the Sheriff received \$108. Expenditures were \$129. The unexpended balance of the account was \$1,925 as of December 31, 2004. These funds are not available in the determination of excess fees.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 5. Federal Asset Forfeiture Account

The McCreary County Sheriff maintained a Federal Asset Forfeiture Account. The grant agreement states that "priority should be given to supporting community policing activities, training, and law enforcement operations calculated to result in further seizures and forfeitures." The balance as of January 1, 2004 was \$3,938. During the period, the Sheriff received \$1,135. Expenditures were \$5,053. Ending balance as of December 31, 2004 was \$20.

Note 6. Cops In Schools Grant

In 1999 the office of the former Sheriff was awarded a grant under the Office of Justice Programs in the amount of \$344,170 to be expended over three years. The balance as of January 1, 2004 was \$6,064. During the period, the Sheriff received \$1,825. Expenditures were \$7,889. Ending balance as of December 31, 2004 was \$0.

Note 7. Overtime Grant LLEB-563-03

The McCreary County Sheriff opened a bank account in November 2003 for funds received under an overtime grant from the Kentucky Justice and Public Safety Cabinet. The balance as of January 1, 2004 was \$2,731. For the period, the Sheriff received \$445. Expenditures were \$2,328. Ending balance as of December 31, 2004 was \$848.

MCCREARY COUNTY
CLARENCE PERRY, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2004

Assets

Cash in Bank		\$	60,165
Deposits in Transit			185
Receivables:			
Security Service Fees	\$	1,909	
December Tax Commissions		8,352	
Delinquent Tax		352	
Prisoner Transport		3,731	
Kentucky Law Enforcement Foundation Program Fund		1,121	
Summons		30	
House Bill 413		2,144	
Arrest Fees		190	
State Fee Claims		6,494	
Interest		62	
Cash Drawer		25	
Due From Fiscal Court		4,801	29,211
			<hr/>
Total Assets			89,561

Liabilities

Paid Obligations:			
Outstanding Checks			11,317
Liabilities Paid After December 31, 2004			
Kentucky State Treasurer-			
Advancement Repayment	30,497		
Carrying Concealed Deadly Weapons	1,215		
Retirement	76		
Uniforms and Equipment	1,252		
Maintenance and Repair	1,978		
Gasoline	1,814		
Office Supplies	377		
Office Equipment	290		
Advertising	76		
McCreary County Treasurer-			
Insurance Reimbursement	1,975		
Sheriff's Salary	23,883		
Workman's Compensation Insurance	5		
Repayment of Personal Loan To Sheriff	10,000		
Miscellaneous	5		73,443
			<hr/>
Total Paid Obligations			84,760

MCCREARY COUNTY
CLARENCE PERRY, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS
December 31, 2004
(Continued)

Liabilities (Continued)

Unpaid Obligations:

Due to 2005 Fee Account

\$ 6,041

Total Unpaid Obligations

\$ 6,041

Total Liabilities

90,801

Total Fund Deficit as of December 31, 2004

\$ (1,240)

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COMMENTS AND RECOMMENDATIONS

MCCREARY COUNTY
CLARENCE PERRY, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

Auto Inspections Were Not Properly Accounted For

Based on records in the County Clerk's office, we determined that the Sheriff's office inspected a total of 1,524 vehicles that were licensed in McCreary County during 2004 in accordance with KRS 186A.115. Of this number, no receipts were issued and no funds were deposited for 248 of these inspections. KRS 186A.115(1)(a) states, "Except as otherwise provided in this section, the owner of every vehicle brought into this state and required to be titled in this state shall, before submitting his application for title to the county clerk, have the vehicle together with his application for title and its supporting documentation, inspected by a certified inspector in the county in which the application for title is to be submitted to the county clerk. The certified inspector shall be certified through the Department of Vehicle Regulation following requirements set forth by the department by regulation and shall be designated by the county sheriff. The certified inspector will be held responsible for all certifications required pursuant to this chapter, and shall be liable for any and all penalties prescribed in this chapter, and shall be available during office hours at any and all offices and branches that issue applications for titles." KRS 186A.115(b) states, "There shall be a five (\$5) fee for this certification payable to the sheriff's office, upon completion of certification." Based on this statute, the Sheriff's office should have collected an additional \$1,240 for auto inspections during 2004. We have included the additional \$1,240 for auto inspections in the Statement of Revenues, Expenditures, and Excess Fees.

We further remind the Sheriff that KRS 134.160(2) requires the Sheriff to keep an accurate account of all moneys received. We recommend proper fees for auto inspections be collected, accurately accounted for, and deposited in the Sheriff's official bank account daily.

Sheriff's Response: None

The Sheriff Had A Deficit Of \$1,240 In His Official Account

Based on our audit, the Sheriff had a deficit in his 2004 fee account in the amount of \$1,240. This deficit was the result of undeposited receipts for auto inspections totaling \$1,240. We recommend that the Sheriff deposit personal funds of \$1,240 to eliminate this deficit.

Sheriff's Response: None

2004 Payroll Liabilities Should Not Have Been Paid Out Of 2005 Receipts

Based on the audit, the Sheriff was due an additional \$23,883 for 2004 salary. The fiscal court required the Sheriff to pay all matching FICA, Medicare, and retirement amounts as well as the amount for workman's compensation insurance attributable to the additional Sheriff's salary due. An additional \$4,358 was due for the employer's matching share of retirement, FICA, and Medicare, and \$1,688 for worker compensation insurance bringing the total payroll expenditures due for 2004 to \$29,929. As of September 1, 2005, when these payroll expenditures were paid, the Sheriff only had \$23,888 in his 2004 fee account. This amount was paid to the county treasurer from the 2004 fee account. The additional \$6,041 due was paid to the county

MCCREARY COUNTY
CLARENCE PERRY, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

2004 Payroll Liabilities Should Not Have Been Paid Out Of 2005 Receipts (Continued)

treasurer from the Sheriff's 2005 fee account. Since these payroll expenditures are statutorily mandated expenses of the Sheriff's office, and the 2004 receipts of the Sheriff's office were insufficient to pay them, the fiscal court has the responsibility of paying them in accordance with KRS 64.535, OAG 83-360 and OAG 84-104. We recommend the Sheriff deposit \$1,240 from personal funds to cover the deficit and obtain a refund of \$4,801 from the fiscal court and then refund \$6,041 to his 2005 fee account.

Sheriff's Response: None

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should reconcile monthly reports to source documents and receipts and disbursements ledgers.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should approve all disbursements and sign all checks.

Sheriff's Response: None

PRIOR YEAR:

The Sheriff Lacks Adequate Segregation of Duties

This has not been corrected and a comment is included in the current year audit report.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Blaine Phillips, McCreary County Judge/Executive
Honorable Clarence Perry, McCreary County Sheriff
Members of the McCreary County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the McCreary County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated September 18, 2006. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McCreary County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCreary County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- Auto Inspections Were Not Properly Accounted For
- The Sheriff Had A Deficit Of \$1,240 In His Official Account
- 2004 Payroll Liabilities Should Not Have Been Paid Out Of 2005 Receipts

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 18, 2006

